

Classification: Part 1 – Public

Key Decision: No

Gravesham Borough Council

Report to: Cabinet
Overview Scrutiny Committee

Date: 4 February 2019
14 February 2019

Reporting officer: Leader of the Executive
Chief Executive
Director (Corporate Services)

Subject: General Fund Revenue and Capital Estimates 2019-20

Purpose and summary of report:

To present the Cabinet with the draft revenue and capital estimates for General Fund services in 2019-20.

To recommend to Council the level of council tax to be levied for 2019-20.

Recommendations:

The Cabinet recommends to Council that:

1. The draft revenue estimates for 2019-20 together with revised estimates for 2018-19, be approved, subject to any final amendments agreed by the Section 151 Officer in consultation with the Chief Executive and Leader of the Executive;
2. The provisional estimates for the following nine years be noted;
3. The draft capital estimates for 2019-20, together with the revised estimates for 2018-19, be approved subject to detailed reports coming forward on new schemes where applicable;
4. Arrangements be made for a resolution to be placed before the meeting of the Council, to be held on 26 February 2019, specifying the council tax to be levied in the Borough of Gravesham for the year 2019-20.

Background

- 1.1 The council has a statutory duty to set the level of council tax and calculate the budget for the forthcoming financial year by 11 March.
- 1.2 Under the Policy Framework and Budget Procedure Rules of the Constitution, the Cabinet has responsibility for making proposals to Full Council for the adoption of the Council's Budget.
- 1.3 This report presents the draft General Fund revenue and capital estimates for the year 2019-20 to enable the Cabinet to recommend to Full Council its proposal in respect of the Council budget for 2019-20 and the level of Council Tax to be levied. These estimates have been prepared in accordance with the Council's Corporate Plan and the Council's Partnership Framework.

2. Format of this report

- 2.1 This report is presented in seven sections. A summary is provided in the main body of this report for each section, with further detailed and contextual information presented in the supporting appendices as needed:
 - Section One – Policy Context
 - Section Two – Government Funding
 - Section Three – Medium Term Financial Strategy
 - Section Four - General Fund Revenue Budget
 - Section Five – Council Tax
 - Section Six - Robustness of Estimates and Adequacy of Reserves
 - Section Seven - Capital Programme

3. SECTION ONE – POLICY CONTEXT

Corporate Plan 2015-19 – Delivering for the Community

- 3.1 A five-year Corporate Plan was adopted in October 2015 which set the four strategic objectives of the Council as being:

Safer Gravesham – where local residents and visitors can live, work and travel in a safe, clean and green borough.

Stronger Gravesham – a healthier more cohesive community where children have the best start in life and people are proud to call home.

Sustainable Gravesham – a thriving and sustainable local economy, built on the foundations of high quality regeneration and development projects.

Sound and self-sufficient council – a well-run and innovative council supporting its staff to realise commercial opportunities whilst transforming its services to deliver at the best possible value for money.

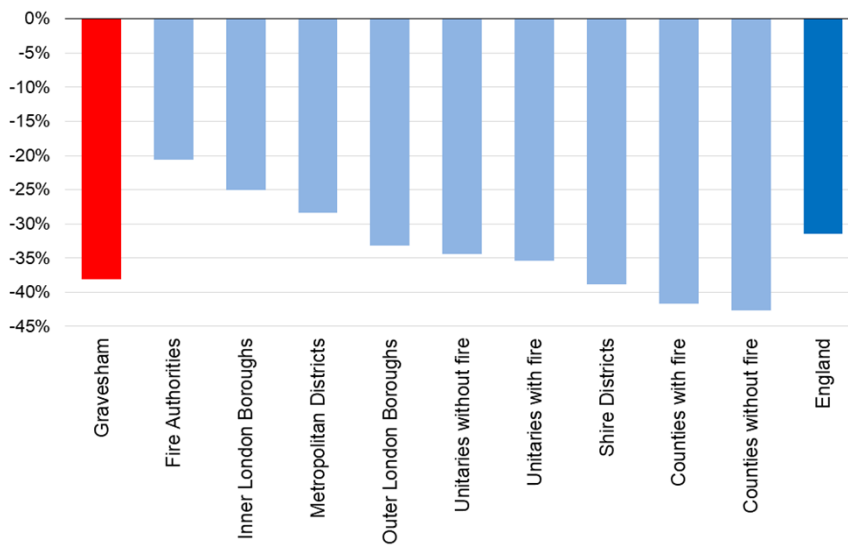
- 3.2 Performance against the plan is reported through quarterly performance update reports and budget monitoring reports; these reports include the General Fund Medium Term Financial Plan and HRA Business Plan, which both seek to express the delivery of the Corporate Business Plan objectives in financial terms.

4. SECTION TWO – GOVERNMENT FUNDING (See also Appendix 2)

Local Government Finance Settlement

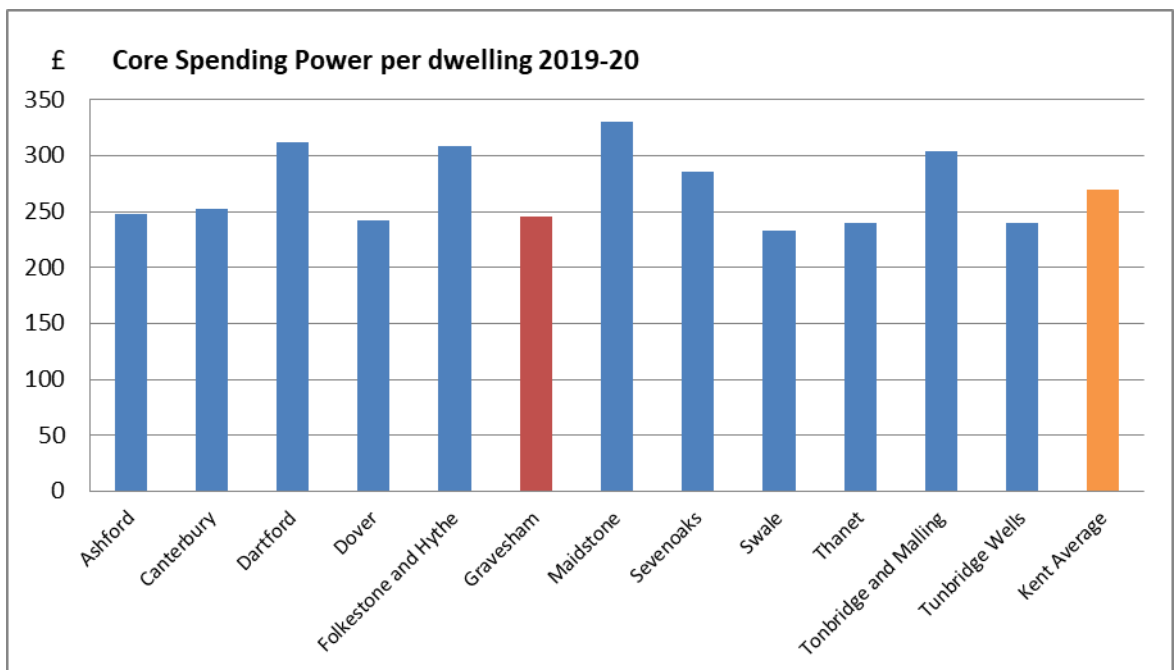
- 4.1 The provisional settlement sets out the level of funding assessed by Central Government for councils (the Settlement Funding Assessment – SFA) and is made up of two elements – Revenue Support Grant (RSG) and Business Rates Retention. Since 2018-19, the Business Rates retention element of the assessment increases each year in line with CPI, with the RSG element effectively used to bring the funding received by councils to the level assessed by Central Government.
- 4.2 On 13 December 2018 the Provisional Local Government Finance Settlement for 2019-20 was announced by the Ministry for Housing, Communities and Local Government (MHCLG). The provisional settlement is the final year of the multi-year finance settlement announced in 2016-17 and completes the Government's intended reduction in the total level of funding for local government over the next three-year period.
- 4.3 The SFA for the council is a slightly improved position than that expected due to the decision of Government to provide an additional £153m of funding to those authorities that were due to pay negative RSG for 2019/20. For Gravesham, this amounted to £243,710 that the council was expecting to lose by way of a reduction to its business rates retention baseline funding level. The graph on the next page shows the cumulative change in SFA by class of authority over the multi-year settlement period, demonstrating that Shire Districts, such as Gravesham, have been significantly affected by government funding reductions.

Cumulative Change in headline SFA by class of authority – 2015-16 to 2019-20



4.4 The provisional settlement indicates that Gravesham will have an increase of 2.1% in its Core Spending Power for 2019-20 based on a series of assumptions, particularly relating to growth in council tax receipts. It should be noted that not all of these assumptions are likely to materialise, effectively resulting in the measure being overstated.

4.5 The Kent view of assumed Core Spending Power per dwelling for individual district authorities is shown in the graph below.



4.6 In 2019-20 Gravesham will continue to have the fifth lowest level of assumed spending power per dwelling at £246. This is an assumed increase of 2.1% (£5 per dwelling) compared to the equivalent Core Spending Power measure in 2018-19.

New Homes Bonus Scheme

- 4.7 The council received New Homes Bonus (NHB) funding each year based on the net number of new homes built in the borough and the number of empty homes brought back into use. The council has secured indicative NHB funding for 2019-20 of £611,150. This is above the level of funding that was previously in the MTFP, with the increase principally due to there being 349 net additions to the housing stock of the borough between October 2017 and October 2018, above the 160 net additional homes needed to meet the 0.4% national baseline.

Business Rates Retention Scheme

- 4.8 Under the current Business Rates Retention Scheme, Kent & Medway were successful in securing Pilot status for 2018-19, with this covering the geographic area of Kent and comprising Kent County Council, Medway Unitary Council, Kent & Medway Fire & Rescue Service and the 12 District Councils. A competitive bid process was held to select pilot areas for 2019-20 and it was announced as part of the provisional settlement that Kent & Medway had been unsuccessful in retaining pilot status for 2019-20. In response to this decision, a letter of representation has been sent on behalf of all Members of the Kent & Medway Pilot to MHCLG seeking reconsideration of the decision not to award Pilot status to Kent and Medway. Any decision is unlikely to be known before publication of the Final Settlement, which is expected no later than the 31 January but after the Cabinet meeting at which the proposed budget for the council will be agreed. The budget has therefore been prepared on the basis of being no pilot arrangements, but this report includes a recommendation allowing adjustment of the budget to reflect any change to the Pilot Status decision for Kent & Medway as time may allow.
- 4.9 On the basis that Pilot Status is not secured for 2019-20, Business Rates arrangements for the county will revert back to the Kent Pool arrangement.
- 4.10 The baseline level of business rates in 2019-20 for Gravesham is £2,917,280. Modelling of anticipated business rates to be generated in 2019-20 (including the projected benefit of membership of the Kent Pool) indicates a benefit to Gravesham of £277,390 beyond that which was previously expected. Of this, £57,750 will be realised as a direct benefit to the Medium Term Financial Plan in 2019/20, with a further £219,640 being the budgeted contribution to the Growth Fund Reserve, intended to be directed to initiatives and projects stimulating economic growth within the county.

5. SECTION THREE – MEDIUM TERM FINANCIAL STRATEGY (See also Appendix 3)

5.1 The announcements that came as part of the Provisional Local Government Finance Settlement in December 2015 set out significant and unexpected changes to the level and way in which local government will be funded in the future. These announcements triggered a need to fundamentally review the Council’s Medium Term Financial Strategy (MTFS) to ensure that it continued to reflect the announcements and set out a sound and realistic plan for managing the Council’s finances moving forward.

| | £ |
|--|--------------------|
| Bridging the Gap Activity | |
| - Property Acquisition Strategy | (400,000) |
| - Fees and Charges activity | (270,000) |
| - Service Review Process Option Implementation | (1,430,000) |
| - Shared Services progression | (240,000) |
| - Budgetary Challenge Measures | (200,000) |
| TOTAL VALUE OF ACTIVITY | (2,540,000) |

5.2 The funding gap, and therefore action required by the council, increased by £0.4m to £2.9m when setting the budget for 2017-18, primarily driven by the changes to the design of the New Homes Bonus Scheme. The funding gap was widened by at least a further £1m at budget setting 2018-19 due to the financial impact of low housebuilding rates in the borough, the higher than anticipated staff pay award and lower than expected interest rates.

5.3 An update on each workstream of Bridging the Gap activity was presented to Cabinet and Overview Scrutiny in Summer 2018. Further to this, in November 2018 both Cabinet and Overview Scrutiny were presented with further Balancing the Budget Initiatives amounting to just under £1.3m in response to the budget gap identified at budget setting 2018-19.

5.4 A table showing progress in delivering against Bridging the Gap/Balancing the Budget activity is provided on the next page.

| Workstream | Expected Value of Activity (£) | Activity Implemented and reflected in MTFP (£) | Activity Agreed, not yet reflected in MTFP (£) | Value of further activity required (£) |
|---|--------------------------------|--|--|--|
| Property Acquisition Strategy (Phase 1) | 400,000 | | | 0 |
| Network House, Gillingham | | 147,710 | | |
| Springhead Units, Gravesend | | 150,000 | | |
| St John's House, Dartford | | 110,670 | | |
| Fees and Charges Activity | 270,000 | | | 101,400 |
| Fees and Charges Review - 2017-18 budget setting | | 60,000 | | |
| Fees and Charges Review - 2018-19 budget setting | | 43,430 | | |
| Revised Garden Waste charges from April 2018 | | 25,000 | | |
| Fees and Charges Review - 2019-20 budget setting | | 40,170 | | |
| Service Review Process Option Implementation | 1,430,000 | | | 0 |
| Economic Development & Town Centre Management | | 264,230 | 29,060 | |
| Public Health & Communities | | 195,200 | 990 | |
| Parking & Amenities | | 229,770 | 30,230 | |
| Revenues & Benefits | | 14,110 | 82,890 | |
| Regulatory Services | | 76,190 | 90,710 | |
| Planning & Regeneration Services | | 138,140 | 7,860 | |
| Customer & Theatre Services | | - | 110,920 | |
| Direct Services Operation | | 154,350 | 39,200 | |
| Shared Service Progression | 240,000 | | | 121,760 |
| Legal Services | | 87,000 | | |
| HR | | 22,660 | | |
| Licensing | | 8,580 | | |
| Budgetary Challenge Measures | 200,000 | | | 0 |
| Consistent Underspend Exercise | | 200,000 | | |
| Property Acquisition Strategy (Phase 2) | 397,000 | | | 0 |
| 123-127 Sittingbourne High Street | | 85,000 | | |
| Acquisition of Site at Stuart Road, Gravesend | | 511,190 | | |
| Planned Acquisition A | | | 200,000 | |
| Planned Acquisition B | | | 58,000 | |
| Balancing the Budget Initiatives (November 2018) | 1,274,000 | | 325,360 | |
| Communities Directorate | | 16,730 | | |
| Corporate Services | | 662,810 | | |
| Housing & Regeneration | | - | | |
| Environment & Operations | | 169,100 | | |
| Cross-Directorate | | 100,000 | | |
| Total Value of Activity | 4,211,000 | 3,512,040 | 973,240 | 223,160 |

* The total value of implemented, agreed and further activity required will not equal the total expected value of activity due to delivery beyond that expected in the Property Acquisition and Service Review workstreams.

5.5 The delivery of the Bridging the Gap and Balancing the Budget activity, alongside in-year savings against budgets, the financial benefit from Business Rates Pilot Status in 2018-19 and improved performance in delivery New Homes Bonus has had the effect of pushing back the point at which further savings are required to 2023-24, with a residual budget gap of around £1.9m. Some £1.2m of these savings will be delivered from the further Bridging the Gap/Balancing the Budget activity identified in the table on the previous page as yet to be delivered. The council therefore currently has a window of three years in which to identify further activity of £0.7m that can contribute to meeting the further savings required.

5.6 It is important to note, however, that there still remains significant volatility in the way in which local government is funded from 2020-21 which will begin to materialise during the next year:

- **Spending Review 2019** – due in Spring 2018, this will provide a forward-looking view of the Government's spending plans and the budgets allocated to government departments, which will directly influence the level of funding directed to local government. Indications from the Autumn Budget 2018 suggest that the funding made available to MHCLG will be squeezed, given the commitments made by Government to the NHS and Education.
- **Fair Funding Review** – Government are continuing their review to inform the way in which the measurement of the relative needs of local authorities and the resources required to meet these needs is undertaken in future. Indications continue to suggest that the review will result in a shift of funding from lower tier to upper tier authorities, creating further pressures on this council's budgets.
- **Business Rates Reform** – Government are proposing a redesign and reset of the Business Rates Retention Scheme from 2020-21 considering a partial reset of business rates in 2020-21 which will see changes to the mechanism used to redistribute business rates across the country to meet changes in the relative needs of local authorities. This is likely to adjust the business rate baseline of the council and may result in a greater proportion of business rates achieved in the borough being passed back to central government for redistribution.
- **New Homes Bonus** - Government have retained the option to adjust the baseline in future years to reflect significant and unexpected housing growth. This may see allocations further affected in future years, and the amount of funding to be distributed through this mechanism could also be affected by the Spending Review 2019, assuming that the Scheme continues at all.
- **Commercialisation** – there has been increasing concerns expressed by Government and professional bodies regarding some council's commercial investments and the potential risks they are exposing themselves and the public to. Any intervention by Government in this area may put at risk the council's ability to generate income through this activity in the future.

5.7 For these reasons it is critical that the council pushes forward with the Bridging the Gap/Balancing the Budget Activity to ensure that it is in the best position possible to respond to the outcomes of Government decisions around local government funding and is able to continue delivering services to its residents.

6. SECTION FOUR – GENERAL FUND REVENUE BUDGET (See also Appendix 3)

Revised Budget 2018-19

- 6.1 The Projected Outturn for 2018-19 indicates a projected underspend for the year of £823,330 albeit income and expenditure variances in the last quarter of the year will impact on this figure. Details of such variances will be included in the Budget Outturn report to Cabinet and the Finance & Audit Committee after the end of the 2018-19 financial year.

Revenue Budget 2019-20

- 6.2 The Original Estimate for 2019-20 represents a balanced budget position, after utilising working balances of £739,870 (and assuming a Council Tax increase of £5.85 (2.97%) in 2019-20). This is in accordance with the objective in the Council's current Medium Term Financial Strategy to enable sums in excess of the agreed level of working balances to be released to support the annual General Fund revenue budget. This creates a period during which savings proposals can be implemented to respond to the ongoing and increasing financial pressures on the General Fund.
- 6.3 A draft Budget Book is attached at Appendix 3a for Member information.

7. SECTION FIVE – COUNCIL TAX (See also Appendix 4)

Council Tax Setting 2019-20

- 7.1 The Provisional Finance Settlement announcement confirmed the continued flexibility for district councils in setting council tax levels by permitting district councils to raise council tax by 3% or up to and including £5 (whichever is higher) without triggering the requirement for referendum.
- 7.2 Taking the decision to freeze Council Tax in 2019-20 rather than implementing a 2.97% increase (the level of % increase closest to 3% which is divisible by nine to account for Council Tax Banding ratios) would see total Council Tax income reduced by almost £1,983,390 across the plan period and add to the already challenging financial position. A 2.97% increase in Council Tax in 2019-20 would equate to 11 pence per week for a Band D property, with the total annual charge being £203.13. By way of comparison, the Band D equivalent Council Tax for 2018-19 is £197.28.

**8. SECTION SIX - ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES
(See also Appendix 5)**

- 8.1 The Local Government Act 2003 requires the Chief Financial Officer to certify that, when setting the annual Council budget, the estimates are robust and that the level of reserves is sufficient for the Authority. It is the view of the Director (Corporate Services), as Section 151 Officer, that the estimates are robust and that the level of reserves is sufficient for the Authority. The review of reserves and working balances conducted by the Director (Corporate Services) can be found at Appendix five to this report. It is imperative that in order to plan effectively and deal with the many financial challenges that the Council faces, a prudent level of reserves is maintained.

9. SECTION SEVEN - CAPITAL PROGRAMME (See also Appendix 6)

- 9.1 The General Fund Capital programme is set out in Appendix six to this report and for 2019-20 is estimated at £19.5m. Estimates relating to Housing Revenue Account and General Fund housing-related schemes are the subject of another report on this agenda.

Background Papers

- 9.2 The background papers pertaining to this report are available from the Financial Services Team in the first instance.

| IMPLICATIONS | | APPENDIX 1 |
|--|--|------------|
| Legal | <p>The Local Government Finance Act 1992 (Chapter III Sect. 32) requires the council to set the council tax and calculate a budget for each financial year by 11th March in the preceding financial year.</p> <p>The Local Government Act 2003 requires the Chief Financial Officer to conclude that the level of reserves is sufficient for the Authority.</p> | |
| Finance and Value for Money | This report sets out the parameters and processes in place for preparing a balanced budget for 2019-20 and for the remainder of the current MTFP period. | |
| Risk Assessment | The risks associated with the General Fund revenue and capital estimates are dealt with in the current MTFS. | |
| Equality Impact Assessment | Screening for Equality Impacts | |
| | Question | |
| | <p>a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer.</p> <p>No</p> | |
| | <p>b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer.</p> <p>No</p> | |
| <i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i> | | |
| Corporate Plan | Corporate Objective 4: A sound and self-sufficient council. | |
| Crime and Disorder | N/A | |
| Digital and website implications | There will be a need to update information provided by the council on the website | |
| Safeguarding children and vulnerable adults | N/A | |